

# Magellan Sustainable Fund (Managed Fund)

ARSN: 645 516 187

Ticker: MSUF

## Fund Features

- A high conviction (20-50 securities), high quality focus, low turnover portfolio.
- Designed for capital preservation in adverse markets, whilst delivering attractive absolute risk-adjusted returns through the economic cycle.
- Portfolio construction incorporates detailed macroeconomic analyses to capture opportunities whilst mitigating risks, alongside the application of both fixed and dynamic risk limits.
- Investors can buy or sell units on Chi-X like any other listed security or apply and redeem directly with the Responsible Entity.

## Fund Facts

Portfolio Manager	Domenico Giuliano		
Structure	Global Equity Fund, A\$ Unhedged		
Inception Date	11 December 2020		
Management Fee <sup>1</sup>	1.35% per annum		
Buy/Sell Spread <sup>1,2</sup>	0.10%/0.10%		
Minimum Investment Size <sup>2</sup>	AUD\$10,000		
Fund Size / NAV Price	AUD \$6.8 million / \$2.5449 per unit		
Distribution Frequency	Semi-annually		
Performance Fee <sup>1</sup>	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (MSCI World Net Total Return Index (AUD)) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.		
iNAV tickers	Bloomberg Thomson Reuters IRESS	MSUF AU Equity MSUF.CHA MSUF.CXA	MSUFAUIV Index MSUFAUiv.P MSUF-AUINAV.NGIF
Carbon Intensity (CO <sub>2</sub> t/US\$1m revenue)	Fund: 25	Index**:	140

<sup>1</sup>All fees are inclusive of the net effect of GST;<sup>2</sup>Only applicable to investors who apply for units directly with the Responsible Entity

## Performance Chart growth of AUD \$10,000\*



## Fund Performance\*

	Fund (%)	Index (%)**	Excess (%)
1 Month	4.2	5.0	-0.8
3 Months	3.1	6.3	-3.2
Since Inception (p.a.)	1.9	6.0	-4.1

\* Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. Exposures may not sum to 100% due to rounding.

\* Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 11 December 2020. Returns denoted in AUD

\*\* Benchmark is the MSCI World NTR Index (AUD).

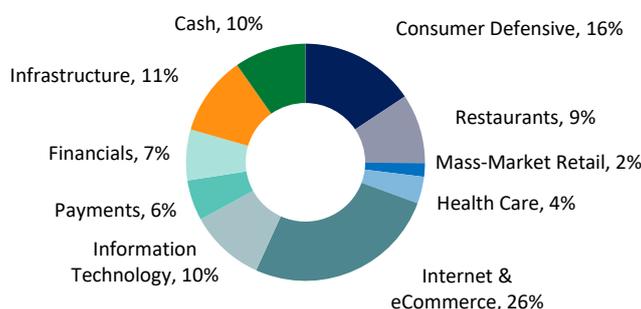
## Environmental, Social, Governance and Low Carbon

- Integrated proprietary ESG risk assessment process and low carbon framework.
- Companies with material exposures to businesses considered detrimental to society or environment are removed from the universe, including exposures to tobacco, alcohol, gambling, adult entertainment and weapons, amongst other exposures as determined from time to time by Magellan.
- Companies are reviewed for the materiality of their exposures to environmental, social and governance issues, with assessments incorporated into our perspectives on business risks.
- We overlay our proprietary Low Carbon framework to deliver a portfolio with much lower carbon risk exposure than world markets.

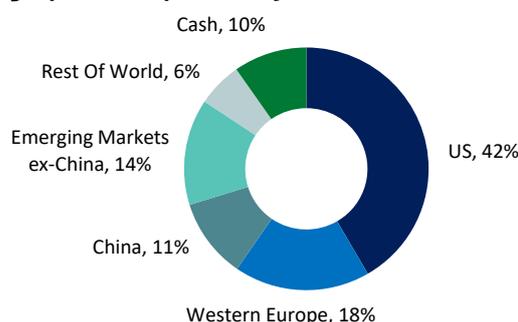
## Top 10 Holdings

	Sector <sup>#</sup>	%
Alphabet Inc	Internet & eCommerce	7.5
Microsoft Corporation	Information Technology	7.2
Facebook Inc - Class A Shares	Internet & eCommerce	6.1
Alibaba Group Holding Ltd	Internet & eCommerce	4.3
Reckitt Benckiser Group	Consumer Defensive	4.0
Novartis AG	Health Care	3.7
Starbucks Corporation	Restaurants	3.6
Unilever PLC	Consumer Defensive	3.5
Chipotle Mexican Grill Inc	Restaurants	3.4
Tencent Holdings Ltd	Internet & eCommerce	3.4
TOTAL:		46.7

## Sector Exposure by Source of Revenue<sup>#</sup>



## Geographical Exposure by Source of Revenue<sup>#</sup>



## Market Commentary

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Global stocks reached record highs as they rose for the eighth quarter in nine for the three months to March after the vaccine rollout intensified, US President Joe Biden capitalised on the Democrat's surprise control of Congress to launch massive fiscal stimulus, the Federal Reserve reiterated it would keep interest rates low, encouraging reports emerged on the US economy, and investors welcomed Italy's new prime minister. Gains were capped as US bond yields rose on concerns that the fiscal stimulus could revive US inflation and a third wave of covid-19 infections swept through Europe. During the quarter, 10 of the 11 sectors rose in US dollars. Energy (+22%) climbed most while consumer staples fell (-0.6%). The Morgan Stanley Capital International World Index climbed 4.9% in US dollars and 6.3% in Australian currency over the quarter.

US stocks gained as the White House count showed 37% of Americans had received one vaccine dose by quarter end and Democrat control of Capitol Hill allowed Biden to force a US\$1.9 trillion bill through Congress that, at 9% of GDP, will boost the budget shortfall for fiscal 2021 to 18% of output. The Democratic party gained control of the Senate after winning the two seats in Georgia that went to a special election (by-election) on January 6. The result tied the Senate 50-50 but new Vice President Kamala Harris's tie-breaking vote gives the party control of the upper chamber to go with its control of the House of Representatives and the White House. In other political news, outgoing president Donald Trump was impeached and acquitted for a record second time. The House in January impeached Trump for helping to incite a mob that breached congress during a protest on January 6 against the election result. The Senate in February acting as an impeachment court acquitted Trump when it failed to gain the required two-thirds majority, though seven Republicans were among the 57 who voted for a guilty verdict while 43 senators voted not guilty. The Fed soothed concerns about bond yields rising on inflation concerns. Fed Chair Jay Powell testified to Congress that the US's recovery is "far from complete" and that the central bank intends to keep interest rates at levels that support employment growth while concerns about inflation remain low. In economic news, the US economy grew at a (revised) annualised speed of 4.3% in the last three months of 2020. The March quarter was marked by individual investors on Reddit and Robinhood bidding up selected stocks that heightened concerns of a stock bubble and the liquidation of Archegos Capital Management's leveraged bets that hurt selected stocks and its banking counterparties. The S&P 500 Index rose 5.8%.

European stocks rallied after the vaccine rollout gained enough pace, the European Central Bank loosened monetary policy even more and Mario Draghi won parliamentary backing to become Italy's next prime minister. Draghi, the former president of the European Central Bank, accepted a mandate from the Italian President Sergio Mattarella to lead the eurozone's third-largest economy after Italy's 66th post-war government collapsed. The European Central Bank officials spoke to calm investors about the risk from rising bond yields as it stepped up the pace of bond-buying to arrest the rise in borrowing costs. This offset the damage from a third wave of infections that forced fresh restrictions across Europe. An economic report showed the eurozone GDP fell a revised 0.7% for the fourth quarter. The Euro Stoxx 50 Index jumped 10.3%.

In other markets, Japan's Nikkei 225 Index rallied 6.3% after the Diet approved a record budget worth 106.6 trillion yen (US\$976 billion) for the fiscal year starting on April 1 and a report showed the economy expanded a revised 2.8% in the fourth quarter. China's CSI 300 Index slid 3.1% as Chinese interest rates rose and the government set a modest growth rate of above 6% for 2021. The S&P/ASX 200 Accumulation Index added 4.3% as company earnings for the period ending December 31 exceeded expectations, the jobless rate fell below 6% and a report showed the economy expanded a higher-than-expected 3.1% in the December quarter. The MSCI Emerging Markets Index edged up 1.9% in US dollars on the better outlook for the world economy.

## Fund Commentary

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The portfolio recorded a positive return for the quarter. The biggest contributors were the investments in Alphabet, Wells Fargo and Tencent. Alphabet rallied after its 23% surge in revenue for the fourth quarter that was driven by Search and YouTube advertising beat expectations. Wells Fargo gained on a view the stimulus would boost lending and curtail consumer bad debts, that the associated increase in interest rates would help profit margins, and on a Bloomberg report in February that the Fed has accepted the bank's risk-management plan that, if confirmed, would be the first step in removing the Fed-imposed cap on the value of assets the bank can hold. Tencent gained 8.2% after it was among the Chinese stocks that the Trump administration spared from its 'blacklist' of Chinese stocks. Microsoft added 6.2% after fourth-quarter sales advanced a higher-than-expected 17% on pandemic-driven demand for video games and cloud resources.

The biggest detractors were the investments in Red Eléctrica of Spain, PepsiCo and Unilever. Red Eléctrica, which manages Spain's electricity transmission grid, fell after the utility provided a disappointing forward investment outlook. PepsiCo slid as further restrictions on out-of-home activity were implemented, especially in Europe. Unilever declined as rising costs due to covid-19-related safety measures was just one of the causes behind a drop in profit margins that saw second-half revenue and profits miss expectations.

In relative terms, the strategy underperformed over the quarter. While the portfolio performed well during the pandemic up to the end of October, it has lagged the benchmark significantly since November for three main reasons.

The first was, to conform with portfolio risk controls (a combined risk-ratio cap of 0.8%), about half of the portfolio was invested in cash and defensive equities such as utilities, consumer staples and defensive healthcare. This portion of the portfolio has delivered lagging returns compared with the benchmark (but not noticeably against defensive stocks overall), highlighting the unusually strong preference among investors for riskier investments. The flipside is that these stocks are at their cheapest in many years, giving us comfort about future portfolio returns.

The second reason for the underperformance was the stock-specific issues faced by companies such as Alibaba. Despite their volatile stock prices, we remain comfortable with holding our investments and we see a high likelihood of them delivering attractive returns over our horizon of three to five years. The third reason was our underweight exposure to cyclical equities, which have rallied very strongly following the announcement of the vaccines in November and the extraordinary fiscal stimulus announced by the new Biden administration.

*Stock contributors/detractors are based in local currency terms unless stated otherwise.*

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